

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF HANOVER	County JACKSON
Audit Date FEBRUARY 28, 2006	Opinion Date AUGUST 11, 2006	Date Accountant Report Submitted to State SEPTEMBER 12, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audit)			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Karl L. Drake, CPA			
Street Address 3775 Kimmel Road	City Horton	State MI	Zip 49246
Accountant Signature 			

# **VILLAGE OF HANOVER**

## **FINANCIAL STATEMENTS**

**FEBRUARY 28, 2006**

**KARL L. DRAKE P.C.**

**CERTIFIED PUBLIC ACCOUNTANT**

# VILLAGE OF HANOVER

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## **INDEPENDENT AUDITOR'S REPORT**

Village Council  
Village of Hanover  
Hanover, Michigan 48890

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Hanover, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Hanover's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Hanover as of February 28, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006, on our consideration of the Village of Hanover's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Village Council  
Village of Hanover

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 22 through 25 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Hanover's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Karl L. Drake, P.C.  
Certified Public Accountant

August 11, 2006

This section of the Village of Hanover's annual financial report presents discussion and analysis of the Village's financial performance during the fiscal year ended February 28, 2006. It is best read in conjunction with the Village's financial statements that follow this section.

### Overview

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Village of Hanover financially and the two types of statements present different views of the Village. The government-wide statements reflect information about the activities of the entire Village, presenting an aggregate view and a longer-term view of the Village's overall financial status. The fund financial statements focus on individual components of Village government, reporting the Village's operations in more detail and demonstrating how services were financed in the short term.

### Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Village as a whole using accounting methods similar to those used by private-sector companies. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid. The two government-wide statements report the Village's net assets - the difference between assets and liabilities- as one way to measure the Village's financial health or position. Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Village you need to consider additional non-financial factors such as changes in the Village's property tax base and the condition of the Village's streets.

The government-wide financial statements of the Village are divided into two categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as public works, parks and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* - Operation and maintenance of water system and sanitary sewer system would be included here. The Village would charge fees to customers to cover the costs of providing these services. Currently, the Village does not maintain any business-type activities.

### Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. The Village Council establishes funds as needed to help it control and manage money for particular purposes or to demonstrate that it is meeting legal responsibilities.

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The Village currently has two types of funds:

Governmental funds - Most of the Village's basic services are included in governmental funds that focus on how money flows in and out and the balances remaining at year-end that are available for spending. Activity is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Village that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the Village's programs. The relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

Proprietary funds - Services for which the Village charges customers a fee are reported in proprietary funds. Proprietary fund statements provide both long and short-term financial information. Currently, the Village does not maintain any proprietary funds.

### **The Village as a Whole**

The statement of net assets presents the perspective of the Village as a whole. Table 1 provides a summary of the Village's net assets as of February 28, 2006 in thousands of dollars.

TABLE 1	Governmental Activities
<b>ASSETS</b>	
Current and Other Assets	\$ 277.2
Capital Assets	331.4
<b>TOTAL ASSETS</b>	<b>608.6</b>
<b>LIABILITIES</b>	
Current Liabilities	---
Long-Term Liabilities	---
<b>TOTAL LIABILITIES</b>	<b>---</b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	331.4
Restricted	---
Unrestricted	277.2
<b>TOTAL NET ASSETS</b>	<b>\$ 608.6</b>

# VILLAGE OF HANOVER

## Management's Discussion and Analysis

### The Village as a Whole (Continued)

In the governmental activities, capital assets are depreciated on a straight-line basis.

The Village's combined net assets were \$608.6 thousand at February 28, 2006. Capital assets (net of related debt) totaling \$331.4 thousand compares the historical cost, less depreciation, to the long-term debt used to finance the acquisition of those assets. The \$608,652 in combined unrestricted net assets reflects the accumulated results of all past years' operations.

The following table shows the revenue and expense activity during the current fiscal year, and the change in net assets (in thousands of dollars), as reported in the statement of activities. No audit was performed in the prior fiscal year, so prior year information is not included.

TABLE 2	Governmental Activities
<b>REVENUE</b>	
Program Revenue	
Charges for services	\$ 8.0
General Revenue	
Property taxes	54.5
Federal Grants	---
State entitlements	72.2
Interest earnings	1.3
Other	4.5
<b>TOTAL REVENUE</b>	<u>140.5</u>
<b>EXPENSES</b>	
General Government	45.2
Public Safety	39.6
Public Works	49.1
Recreation	18.7
Interest On Long Term Debt	---
Depreciation (Unallocated)	23.6
<b>TOTAL EXPENSES</b>	<u>176.2</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ -35.7</u>



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### *Governmental Activities*

The governmental activities experienced a decrease in net assets of \$35,675. The primary reasons were maintenance and fencing expenditures.

### **The Village's Funds**

An analysis of the Village's major funds follows the government-wide financial statements. As noted earlier, the Village creates funds to help manage money for specific purposes and to demonstrate accountability for certain activities. The Village's major governmental funds are the General Fund, the Major Streets Fund, and the Local Streets Fund.

The General Fund pays for most of the Village's governmental services and supports capital improvements in the street funds. The General Fund is supported mainly by property taxes and state shared revenue, while the street funds are financed by the state gas and weight tax. At the end of the year, the governmental funds reported a combined fund balance of \$277,236, which is a decrease of \$38,882 from the previous year.

### **General Fund Budgetary Highlights**

Over the course of the year, the Village generally amends the budget in response to changing events. In the year ended February 28, 2006, no budget amendments were made.

### Capital Asset and Debt Administration

At the end of this fiscal year, the Village managed capital assets valued at over \$1.4 million including property, buildings, streets, vehicles and equipment.

Capital Assets Net of Accumulated Depreciation (dollars are in thousands)		
	Governmental Activities	
	2006	2005
Non-Depreciable Assets		
Land	\$ 61	\$ 61
Depreciable Assets		
Buildings	8	9
Vehicles	15	4
Equipment	74	67
Infrastructure	173	187
Total	\$ 331	\$ 328

At year-end, the Village had no outstanding long-term debt.

### Economic Factors and Next Year's Budgets and Rates

In preparing the 2006-2007 budget, the Village expects similar activity levels to 2005-2006. State shared revenues have been consistently declining in recent years, and this trend is expected to continue. Other revenues are expected to be consistent to 2005-2006 totals.

### Contacting the Village's Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village Treasurer, P.O. Box 66, Hanover, MI 48890.

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## **BASIC FINANCIAL STATEMENTS**

# VILLAGE OF HANOVER

## Government-Wide Financial Statements

### STATEMENT OF NET ASSETS

February 28, 2006

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and Investments	\$ 269,800	\$ ---	\$ 269,800
Due From Other Governmental Units	---	---	---
Accounts Receivable	7,436	---	7,436
Prepaid Expenditures	---	---	---
Inventory	---	---	---
Total Current Assets	277,236	---	277,236
Non-Current Assets			
Capital Assets	529,029	---	529,029
Less: Accumulated Depreciation	-197,613	---	-197,613
Total Non-Current Assets	331,416	---	331,416
<b>TOTAL ASSETS</b>	<b>\$ 608,652</b>	<b>\$ ---</b>	<b>\$ 608,652</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	\$ ---	\$ ---	\$ ---
Accrued Interest	---	---	---
Notes and Bonds Payable, Due within One Year	---	---	---
Total Current Liabilities	---	---	---
Non-Current Liabilities			
Deferred Revenue	---	---	---
Notes and Bonds Payable	---	---	---
Compensated Absences	---	---	---
Total Non-Current Liabilities	---	---	---
<b>TOTAL LIABILITIES</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	331,416	---	331,416
Restricted for Debt Service	---	---	---
Unrestricted	277,236	---	277,236
<b>TOTAL NET ASSETS</b>	<b>608,652</b>	<b>---</b>	<b>608,652</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 608,652</b>	<b>\$ ---</b>	<b>\$ 608,652</b>

See Accompanying Notes to Financial Statements

# STATEMENT OF ACTIVITIES

YEAR ENDED FEBRUARY 28, 2006

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges For Services	Operating Grants	Governmental Activities	Business Type Activities	
	Expenses					
<b>FUNCTIONS/PROGRAMS</b>						
Governmental Activities						
General Government	\$ 45,214	\$ ---	\$ ---	\$ -45,214	\$ ---	\$ -45,214
Public Safety	39,562	---	---	-39,562	---	-39,562
Public Works	49,076	8,034	---	-41,042	---	-41,042
Recreational and Cultural	18,694	---	---	-18,694	---	-18,694
Interest on Long-Term Debt	---	---	---	---	---	---
Depreciation (Unallocated)	23,649	---	---	-23,649	---	-23,649
Total Governmental Activities	176,195	8,034	---	-168,161	---	-168,161
Business-Type Activities	---	---	---	---	---	---
Total Activities	\$ 176,195	\$ 8,304	\$ ---	\$ -168,161	\$ ---	\$ -168,161
General Revenue						
Taxes						
Property Taxes, Levied for General Operations				\$ 54,427	\$ ---	\$ 54,427
Property Taxes, Levied for Debt Service				---	---	---
Federal Grants				---	---	---
State of Michigan Aid, Unrestricted				72,233	---	72,233
Interest Earnings				1,291	---	1,291
Transfer In <Out>				---	---	---
Other				4,535	---	4,535
Total General Revenue				132,486	---	132,486
<b>CHANGE IN NET ASSETS</b>				-35,675	---	-35,675
NET ASSETS - BEGINNING OF YEAR				644,327	---	644,327
<b>NET ASSETS - END OF YEAR</b>				<b>\$ 608,652</b>	<b>\$ ---</b>	<b>\$ 608,652</b>

See Accompanying Notes to Financial Statements.

# VILLAGE OF HANOVER

## Fund Financial Statements

### BALANCE SHEET - GOVERNMENTAL FUNDS

FEBRUARY 28, 2006

	General	Major Streets	Local Streets	Other Non-Major	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 67,993	\$ 165,600	\$ 36,207	\$ ---	\$ 269,800
Accounts Receivable	7,436	---	---	---	7,436
Due from Other Governmental Units	---	---	---	---	---
Due from Other Funds	---	17,668	4,118	---	21,786
Prepaid Expenditures	---	---	---	---	---
Inventory	---	---	---	---	---
<b>TOTAL ASSETS</b>	<b>\$ 75,429</b>	<b>\$ 183,268</b>	<b>\$ 40,325</b>	<b>\$ ---</b>	<b>\$ 299,022</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	21,786	---	---	---	21,786
Deferred Revenue	---	---	---	---	---
<b>TOTAL LIABILITIES</b>	<b>21,786</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>21,786</b>
<b>FUND BALANCES</b>					
Reserved for Capital Projects	---	---	---	---	---
Reserved for Debt Service	---	---	---	---	---
Unreserved, Designated	---	---	---	---	---
Unreserved and Undesignated	53,643	183,268	40,325	---	277,236
<b>TOTAL FUND BALANCES</b>	<b>53,643</b>	<b>183,268</b>	<b>40,325</b>	<b>---</b>	<b>277,236</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 75,429</b>	<b>\$ 183,268</b>	<b>\$ 40,325</b>	<b>\$ ---</b>	<b>\$ 299,022</b>
<b>TOTAL GOVERNMENTAL FUND BALANCES</b>					<b>\$ 277,236</b>
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:					
Cost of the Capital Assets					529,029
Accumulated Depreciation					<u>-197,613</u>
					331,416
Long-term Liabilities are not due and payable in the current period and are not reported in the fund:					
Bonds and Loans Payable					---
Compensated Absences					---
Accrued interest is not included as a liability in governmental funds					<u>---</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>					<b>\$ 608,652</b>

See Accompanying Notes to Financial Statements.

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS**

**YEAR ENDED FEBRUARY 28, 2006**

	General	Major Streets	Local Streets	Other Non-Major	Totals
<b>REVENUE</b>					
Property Taxes	\$ 54,427	\$ ---	\$ ---	\$ ---	\$ 54,427
Federal Grants	---	---	---	---	---
State Grants	40,107	26,052	6,074	---	72,233
Charges for Services	8,034	---	---	---	8,034
Interest	589	627	75	---	1,291
Other	4,535	---	---	---	4,535
<b>TOTAL REVENUE</b>	<b>107,692</b>	<b>26,679</b>	<b>6,149</b>	<b>---</b>	<b>140,520</b>
<b>EXPENDITURES</b>					
General Government	45,214	---	---	---	45,214
Public Safety	39,562	---	---	---	39,562
Public Works	17,592	16,248	5,751	---	39,591
Recreational and Cultural	18,694	---	---	---	18,694
Debt Service	---	---	---	---	---
Capital Outlay	36,341	---	---	---	36,341
<b>TOTAL EXPENDITURES</b>	<b>157,403</b>	<b>16,248</b>	<b>5,751</b>	<b>---</b>	<b>179,402</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-49,711</b>	<b>10,431</b>	<b>398</b>	<b>---</b>	<b>-38,882</b>
<b>OTHER FINANCING SOURCES &lt;USES&gt;</b>					
Bond Proceeds	---	---	---	---	---
Operating Transfers In	---	---	---	---	---
Operating Transfers Out	---	---	---	---	---
<b>TOTAL OTHER FINANCING SOURCES &lt;USES&gt;</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-49,711</b>	<b>10,431</b>	<b>398</b>	<b>---</b>	<b>-38,882</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>103,354</b>	<b>172,837</b>	<b>39,927</b>	<b>---</b>	<b>316,118</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 53,643</b>	<b>\$ 183,268</b>	<b>\$ 40,325</b>	<b>\$ ---</b>	<b>\$ 277,236</b>

See Accompanying Notes to Financial Statements.

# VILLAGE OF HANOVER

## Fund Financial Statements

### RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED FEBRUARY 28, 2006

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ -38,882**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-23,649	
Capital Outlay	<u>26,856</u>	3,207

- Governmental funds report bond proceeds as revenue. In the statement of activities these costs are not reported. They are included as liabilities in the statement of net assets.

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- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.

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- Repayments of note and bond principal are an expenditure in the governmental fund, but not in the statement of activities (where it reduces long-term debt).

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- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds.

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**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ -35,675**



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## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

#### **A. REPORTING ENTITY**

The Village of Hanover is a general law village located in Jackson County, Michigan. The Village operates under an elected council consisting of nine members and provides various services to its approximately 424 residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

#### **B. BASIS OF PRESENTATION**

##### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

# VILLAGE OF HANOVER

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Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Government-Wide Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

**Fund Based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

## GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Village are the Major Streets Fund and Local Streets Fund.

## PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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## **NOTES TO FINANCIAL STATEMENTS**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

### **C. BUDGETS AND BUDGETARY ACCOUNTING**

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted at the functional level.

### **D. PROPERTY TAXES**

Real and personal property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1, of the subsequent year. Taxes are due and payable as of September 15. The property tax revenue in the accompanying financial statements was recognized as that levied during the year.

All unpaid taxes become delinquent after September 15, at which time the uncollected real taxes are returned to Jackson County for collection and to be added to the delinquent tax rolls. The County of Jackson purchases delinquent real property taxes of the Village of Hanover. The County sells tax notes, the proceeds of which are used to pay the Village for the taxes.

The Village is authorized to assess 12.5 mills for general operations. The millage rate levied for 2005 was 8.3024 mills for operations. Total taxable value of real and personal property in the Village was \$6,624,609.

The Village is responsible for the collection of delinquent personal property taxes.

# VILLAGE OF HANOVER

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## **E. CASH EQUIVALENTS**

The Village considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

## **F. FINANCIAL INSTRUMENTS**

The Village does not require collateral to support financial instruments subject to credit risk.

## **G. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

## **H. FUND EQUITY**

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

## **I. CAPITAL ASSETS**

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. streets, bridges, drains) are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15-50 years
Vehicles	5-10 years
Other equipment	5-20 years

## **J. RISK MANAGEMENT**

The Village is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

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## **NOTES TO FINANCIAL STATEMENTS**

### **K. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### **L. TOTAL COLUMNS ON COMBINED STATEMENTS**

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

### **M. ESTIMATES**

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

### **LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS**

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Village, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.

# VILLAGE OF HANOVER

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## NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

### LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS (CONTINUED)

2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village is in compliance with State law regarding their cash deposits.

The Village maintains all of its cash deposits at two banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Village's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 175,000	\$ 175,000
Uninsured & Uncollateralized	94,800	95,055
Total Deposits	<u>\$ 269,800</u>	<u>\$ 270,055</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

## NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at February 28, 2006.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Village's Governmental activities was as follows:

	Balance March 1, 2005	Additions	Disposals and Adjustments	Balance February 28, 2006
Assets not being depreciated:				
Land	\$ 60,818	\$ ---	\$ ---	\$ 60,818
Capital assets being depreciated:				
Buildings	60,153	---	---	60,153
Vehicles	16,200	13,663	---	29,863
Equipment	89,930	13,193	---	103,123
Infrastructure	275,072	---	---	275,072
Subtotal	441,355	26,856	---	468,211
Accumulated depreciation:				
Buildings	51,102	1,135	---	52,237
Vehicles	11,900	2,417	---	14,317
Equipment	22,712	6,344	---	29,056
Infrastructure	88,250	13,753	---	102,003
Subtotal	173,964	23,649	---	197,613
Net capital assets being depreciated	267,391	3,207	---	270,598
Net capital assets	\$ 328,209	\$ 3,207	\$ ---	\$ 331,416

Depreciation expense was not charged to activities as the Village considers its assets to impact multiple activities and allocation is not practical.

### NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

At February 28, 2006, there were no interfund payables or receivables.

<u>Due to</u>		<u>Due From</u>	
Major Streets	\$ 17,668	General	\$ 17,668
Local Streets	<u>4,118</u>	General	<u>4,118</u>
	<u>\$ 21,786</u>		<u>\$ 21,786</u>

# VILLAGE OF HANOVER

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## NOTE 6 - ACCUMULATED PERSONAL AN VACATION PAY

Village employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. The amount accrued at the end of the year was immaterial and not recorded.

## NOTE 7 - RETIREMENT PLAN

The Village does not participate in any retirement plan.

## NOTE 8 - BUDGETARY ACCOUNTING

During the year ended February 28, 2006, the Village incurred expenditures that were in excess of the amounts appropriated in the following:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
GENERAL FUND			
General Government	\$ 26,500	\$ 45,214	\$ 18,714
Public Safety	22,400	39,562	17,162
Public Works	13,300	17,592	4,292
Recreation and Cultural	13,000	18,694	5,694
Capital Outlay	3,000	36,341	33,341



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## **REQUIRED SUPPLEMENTAL INFORMATION**

# VILLAGE OF HANOVER

General Fund

## BUDGETARY COMPARISON SCHEDULE

YEAR ENDED FEBRUARY 28, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUE</b>				
Property Taxes	\$ ---	\$ ---	\$ 54,427	\$ 54,427
Federal Grants	---	---	---	---
State Grants	---	---	40,107	40,107
Charges for Services	---	---	8,034	8,034
Interest	---	---	589	589
Other	---	---	4,535	4,535
Transfers In	---	---	---	---
<b>TOTAL REVENUE</b>	<b>---</b>	<b>---</b>	<b>107,692</b>	<b>107,692</b>
<b>EXPENDITURES</b>				
General Government	26,500	26,500	45,214	-18,714
Public Safety	22,400	22,400	39,562	-17,162
Public Works	13,300	13,300	17,592	-4,292
Recreation and Cultural	13,000	13,000	18,694	-5,694
Debt Service	---	---	---	---
Capital Outlay	3,000	3,000	36,341	-33,341
Other Uses - Operating Transfers Out	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>78,200</b>	<b>78,200</b>	<b>157,403</b>	<b>-79,203</b>
<b>EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES</b>	<b>-78,200</b>	<b>-78,200</b>	<b>-49,711</b>	<b>28,489</b>
<b>BUDGETARY FUND BALANCE - BEGINNING OF YEAR</b>	<b>103,354</b>	<b>103,354</b>	<b>103,354</b>	<b>---</b>
<b>BUDGETARY FUND BALANCE - END OF YEAR</b>	<b>\$ 25,154</b>	<b>\$ 25,154</b>	<b>\$ 53,643</b>	<b>\$ 28,489</b>

## BUDGETARY COMPARISON SCHEDULE

YEAR ENDED FEBRUARY 28, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUE</b>				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Federal Grants	---	---	---	---
State Grants	---	---	26,052	26,052
Charges for Services	---	---	---	---
Interest	---	---	627	627
Other	---	---	---	---
Transfers In	---	---	---	---
<b>TOTAL REVENUE</b>	<b>---</b>	<b>---</b>	<b>26,679</b>	<b>26,679</b>
<b>EXPENDITURES</b>				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	37,300	37,300	16,248	21,052
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>37,300</b>	<b>37,300</b>	<b>16,248</b>	<b>21,052</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>-37,300</b>	<b>-37,300</b>	<b>10,431</b>	<b>47,731</b>
<b>BUDGETARY FUND BALANCE - BEGINNING OF YEAR</b>	<b>172,837</b>	<b>172,837</b>	<b>172,837</b>	<b>---</b>
<b>BUDGETARY FUND BALANCE - END OF YEAR</b>	<b>\$ 135,537</b>	<b>\$ 135,537</b>	<b>\$ 183,268</b>	<b>\$ 47,731</b>

# VILLAGE OF HANOVER

Local Streets

## BUDGETARY COMPARISON SCHEDULE

YEAR ENDED FEBRUARY 28, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
<b>REVENUE</b>				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Federal Grants	---	---	---	---
State Grants	---	---	6,074	6,074
Charges for Services	---	---	---	---
Interest	---	---	75	75
Other	---	---	---	---
Transfers In	---	---	---	---
<b>TOTAL REVENUE</b>	<b>---</b>	<b>---</b>	<b>6,149</b>	<b>6,149</b>
<b>EXPENDITURES</b>				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	8,500	8,500	5,751	2,749
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	---	---	---	---
<b>TOTAL EXPENDITURES</b>	<b>8,500</b>	<b>8,500</b>	<b>5,751</b>	<b>2,749</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES AND OTHER USES</b>	<b>-8,500</b>	<b>-8,500</b>	<b>398</b>	<b>8,898</b>
<b>BUDGETARY FUND BALANCE - BEGINNING OF YEAR</b>	<b>39,927</b>	<b>39,927</b>	<b>39,927</b>	<b>---</b>
<b>BUDGETARY FUND BALANCE - END OF YEAR</b>	<b>\$ 31,427</b>	<b>\$ 31,427</b>	<b>\$ 40,325</b>	<b>\$ 8,898</b>

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## **OTHER SUPPLEMENTAL INFORMATION**

# **VILLAGE OF HANOVER**

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## **GENERAL FUND**

**BALANCE SHEET****FEBRUARY 28, 2006****ASSETS**

Cash	\$ 67,993
Taxes Receivable	<u>7,436</u>

<b>TOTAL ASSETS</b>	<b><u>\$ 75,429</u></b>
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**LIABILITIES AND FUND BALANCE**

Liabilities	
Due to Other Funds	\$ 21,786
Fund Balance	<u>53,643</u>

<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 75,429</u></b>
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# VILLAGE OF HANOVER

## General Fund

### STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
<b>REVENUE</b>			
Property Taxes	\$ ---	\$ 54,427	\$ 54,427
State Shared Revenue	---	40,107	40,107
Equipment Rental	---	8,034	8,034
Interest	---	589	589
Cable TV	---	1,396	1,396
Miscellaneous	---	3,139	3,139
<b>TOTAL REVENUE</b>	<b>---</b>	<b>107,692</b>	<b>107,692</b>
<b>EXPENDITURES</b>			
GENERAL GOVERNMENT			
Village Council			
Salaries	2,000	2,240	-240
Miscellaneous	---	3,258	-3,258
Training	---	370	-370
	2,000	5,868	-3,868
Election	600	---	600
Clerk			
Salaries	8,500	8,700	-200
Supplies and postage	---	2,381	-2,381
Operating supplies	---	523	-523
Contract labor	---	360	-360
Telephone	---	1,191	-1,191
Travel	---	469	-469
Printing	---	18	-18
Repairs	---	536	-536
	8,500	14,178	-5,678
Treasurer			
Salaries	---	4,689	-4,689
Supplies and postage	---	1,219	-1,219
Tax printing	500	200	300
	500	6,108	-5,608
Village Hall			
Repairs	3,000	618	2,382
Utilities	1,000	1,890	-890
	4,000	2,508	1,492
Audit	1,900	100	1,800
Insurance	7,000	13,921	-6,921
Payroll Taxes	2,000	2,317	-317
Dues and Subscriptions	---	214	-214
<b>TOTAL GENERAL GOVERNMENT</b>	<b>\$ 26,500</b>	<b>\$ 45,214</b>	<b>\$ -18,714</b>



	Budget	Actual	Variance Favorable <Unfavorable>
<b>EXPENDITURES (CONTINUED)</b>			
PUBLIC SAFETY			
Planning and Development			
Professional fees	\$ 500	\$ 6,284	\$ -5,784
Contract labor	15,000	16,604	-1,604
Printing	800	539	261
Insurance	---	1,300	-1,300
Repairs	---	158	-158
	16,300	24,885	-8,585
Law Enforcement	3,000	5,742	-2,742
Fire Safety			
Services	3,000	5,300	-2,300
Utilities	100	3,635	-3,535
	3,100	8,935	-5,835
TOTAL PUBLIC SAFETY	22,400	39,562	-17,162
PUBLIC WORKS			
Salaries	---	4,560	-4,560
Gas and Oil	800	549	251
Miscellaneous	---	303	-303
Travel	---	100	-100
Printing	---	152	-152
Utilities	---	394	-394
Street Lights	6,000	6,726	-726
Repairs	5,500	3,679	1,821
Lawn Care	1,000	1,129	-129
TOTAL PUBLIC WORKS	13,300	17,592	-4,292
RECREATION AND CULTURAL			
Salaries	2,500	5,685	-3,185
Contract Labor	4,500	5,931	-1,431
Utilities	---	175	-175
Repairs	1,000	4,318	-3,318
Lawn Care	5,000	2,485	2,515
Miscellaneous	---	100	-100
TOTAL PARKS AND RECREATION	13,000	18,694	-5,694
CAPITAL OUTLAY	3,000	36,341	-33,341
<b>TOTAL EXPENDITURES</b>	<b>78,200</b>	<b>157,403</b>	<b>-79,203</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-78,200</b>	<b>-49,711</b>	<b>28,489</b>
FUND BALANCE - BEGINNING OF YEAR	103,354	103,354	---
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 25,154</b>	<b>\$ 53,643</b>	<b>\$ 28,489</b>

# **VILLAGE OF HANOVER**

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## **SPECIAL REVENUE FUNDS**

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**SPECIAL REVENUE FUNDS**

**MAJOR STREETS FUND**

**LOCAL STREETS FUND**

# VILLAGE OF HANOVER

## Special Revenue Funds

### COMBINING BALANCE SHEET

FEBRUARY 28, 2006

	Major Streets	Local Streets	Total
<b>ASSETS</b>			
Cash	\$ 165,600	\$ 36,207	\$ 201,807
Due from Other Funds	17,668	4,118	21,786
<b>TOTAL ASSETS</b>	<b>\$ 183,268</b>	<b>\$ 40,325</b>	<b>\$ 223,593</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts Payable	\$ ---	\$ ---	\$ ---
Fund Balance	183,268	40,325	223,593
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 183,268</b>	<b>\$ 40,325</b>	<b>\$ 223,593</b>

**COMBINING STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006**

	Major Streets	Local Streets	Total
<b>REVENUE</b>			
Taxes	\$ ---	\$ ---	\$ ---
Intergovernmental Revenue	26,052	6,074	32,126
Interest	627	75	702
Other	---	---	---
<b>TOTAL REVENUE</b>	<b><u>26,679</u></b>	<b><u>6,149</u></b>	<b><u>32,828</u></b>
<b>EXPENDITURES</b>			
Public Works	16,248	5,751	21,999
Capital Outlay	---	---	---
Debt Service	---	---	---
<b>TOTAL EXPENDITURES</b>	<b><u>16,248</u></b>	<b><u>5,751</u></b>	<b><u>21,999</u></b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>10,431</b>	<b>398</b>	<b>10,829</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b><u>172,837</u></b>	<b><u>39,927</u></b>	<b><u>212,764</u></b>
<b>FUND BALANCE – END OF YEAR</b>	<b><u>\$ 183,268</u></b>	<b><u>\$ 40,325</u></b>	<b><u>\$ 223,593</u></b>

# VILLAGE OF HANOVER

## Major Streets Fund

### STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
<b>REVENUE</b>			
State of Michigan	\$ ---	\$ 26,052	\$ 26,052
Interest	---	627	627
Miscellaneous	---	---	---
<b>TOTAL REVENUE</b>	<b>---</b>	<b>26,679</b>	<b>26,679</b>
<b>EXPENDITURES</b>			
Routine Maintenance			
Labor	2,000	1,790	210
Operating Supplies	10,000	---	10,000
Maintenance	6,200	3,541	2,659
Equipment Rental	500	1,787	-1,287
	18,700	7,118	11,582
Winter Maintenance			
Labor	1,000	278	722
Operating Supplies	10,000	275	9,725
Maintenance	5,000	3,892	1,108
Equipment Rental	500	3,411	-2,911
	16,500	7,856	8,644
Traffic Services			
Utilities	100	102	-2
Maintenance	2,000	1,172	828
	2,100	1,274	826
<b>TOTAL EXPENDITURES</b>	<b>37,300</b>	<b>16,248</b>	<b>21,052</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-37,300</b>	<b>10,431</b>	<b>47,731</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>172,837</b>	<b>172,837</b>	<b>---</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 135,537</b>	<b>\$ 183,268</b>	<b>\$ 47,731</b>

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2006**

	Budget	Actual	Variance Favorable <Unfavorable>
<b>REVENUE</b>			
State of Michigan	\$ ---	\$ 6,074	\$ 6,074
Interest	---	75	75
Other	---	---	---
<b>TOTAL REVENUE</b>	<b>---</b>	<b>6,149</b>	<b>6,149</b>
<b>EXPENDITURES</b>			
Routine Maintenance			
Labor	500	684	-184
Operating Supplies	750	---	750
Maintenance	3,300	---	3,300
Equipment Rental	300	622	-322
	4,850	1,306	3,544
Winter Maintenance			
Labor	500	113	387
Operating Supplies	750	138	612
Maintenance	2,000	1,394	606
Equipment Rental	200	2,214	-2,014
	3,450	3,859	-409
Traffic Services			
Maintenance	200	586	-386
<b>TOTAL EXPENDITURES</b>	<b>8,500</b>	<b>5,751</b>	<b>2,749</b>
<b>EXCESS OF REVENUE OVER &lt;UNDER&gt; EXPENDITURES</b>	<b>-8,500</b>	<b>398</b>	<b>8,898</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>39,927</b>	<b>39,927</b>	<b>---</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 31,427</b>	<b>\$ 40,325</b>	<b>\$ 8,898</b>

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Horton, Michigan 49246

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Village Council  
Village of Hanover

We have audited the general-purpose financial statements of the Village of Hanover as of and for the year ended February 28, 2006, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Hanover's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Hanover's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal



control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Village of Hanover in a separate letter dated August 11, 2006.

This report is intended for the information of Village Council, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.  
Certified Public Accountant

August 11, 2006

**Karl L. Drake, P.C.**  
Certified Public Accountant

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August 11, 2006

To the Village Council  
Village of Hanover  
Jackson County, Michigan

I have recently completed the audit of your books and records for the year ended February 28, 2006, and would like to take this opportunity to make the following comments and recommendations.

Financial Overview

All of your funds continue to be in stable financial condition. The fund balances at the end of this fiscal year were as follows:

General Fund	\$ 53,643
Major Streets Fund	183,268
Local Streets Fund	40,325

Fund balance increases or <decreases> were as follows for the fiscal year:

General Fund	\$ -49,711
Major Streets Fund	10,431
Local Streets Fund	398

Budget

During this past year, several accounts had expenditures in excess of amounts budgeted. The budget should be amended during the year to reflect changing circumstances. If expenditures are higher than expected, the budget must be amended to make the expenditures legal transactions.

GASB 34

This is the first report using the "GASB 34" format of reporting. Several new reports and formats are included, and depreciation, fixed asset capitalization, and long-term debt are included. The new "Government-wide" financial statements present the Village in solid financial condition.

Thank you for the opportunity to work with you.

Sincerely,



Karl L. Drake, CPA